SENATE LOCAL GOVERNMENT
EXHIBIT NO. 1
DATE 3.23.09
BILL NO. HB630

MISSOULA

FINANCE DEPARTMENT

Budget and Analysis
Treasury
Finance and Debt Management
Accounting/Utility Billing

435 Ryman Street, Missoula, Montana 59802 (406) 552-6110

March 20, 2009

State of Montana Legislature
Senate Local Government Committee

Re: HB 630 – Letter of Support

Missoula & Billings supports a "Do Pass recommendation" for HB-630

1. The need for this bill arises in part from difficulties that Montana municipalities confront in getting their special improvement district bonds rated by rating agencies. Missoula presently has $1.75 million in SID debt to issue this spring pending the results of this legislation and Billings has $3.1 million of these bonds to issue right now, pending the results of this legislation.

2. For a number of years, Montana bonds sold quite well without ratings, but now the municipal bond market has fundamentally changed and the ability to obtain a rating has become a key consideration in both the marketability of and interest rate on municipal bonds. A key ingredient of Montana communities being able to find any buyers for their bonds is credit quality. Those communities with low credit quality may not be able to finance their projects. Those communities with better credit quality can probably find buyers but at interest rates and terms more restrictive than in the past. Statutory authority to increase the credit worthiness of these types of bonds will provide more market access at lower borrowing costs leading to lower costs for property owners. Lack of statutory authority will lead to difficulty in maintaining and expanding our public infrastructure, and where financing is obtainable, the costs to property owners will be higher.

3. Last fall, the rating agency Standard & Poor's identified two aspects of the statutory scheme related to both rural improvement district and special improvement district bonds that made it difficult to assign an investment grade rating to such bonds. HB-630 seeks to address both of those limitations by:
   a. Allowing the cities and counties to increase the debt reserves (SID Revolving Fund) from 5% up to a maximum of 10% (by covenanting not to reduce the revolving fund reserve below 10%, should they so choose), thereby enhancing the marketability of the bonds.
   b. Providing that cities and counties may levy outside of their levy cap, if necessary, to replenish the SID Revolving Fund, should SID payment delinquencies by property owners require that the reserve be replenished. This particular levy had been outside the mill levy limitations since they were first enacted in 1987 in response to the property tax limitation initiative voted on in 1986. It was only with the re-codification and updating of the mill levy limitation in 1999 that it became subject to the limitations.

4. The table below demonstrates the importance of the Special Assessment (SID's & Curb/Sidewalk/Gutter) bonds as a tool to finance infrastructure (sewer, curbs, gutters, sidewalks, streets, parks) at the City of Missoula. As of the end of Missoula's last fiscal year (6-30-08), the Special Assessment Bonds accounted for 25% of the city's total debt outstanding and 56% of the total number of infrastructure financings.

5. Due to the need to be able to issue SID bonds on a regular basis (one or two projects each year in Missoula), it is of paramount importance to be able to sell these bonds on the open market at competitive interest rates, as the assessments are paid by the city's homeowners and business owners.

6. Both of these changes in SID financing would substantially improve the ability of cities and counties to continue to obtain low cost financing for our citizens and business owners for certain types of infrastructure projects that specially benefit their properties.

7. Section 4 of the Bill does appear, on its face, to broaden the uses of a county revolving fund. But the intent of Section 4 is to clarify that counties can use excess funds in the revolving fund for the same purposes that cities can, as set forth in Section 7-12-4227, in this case, use them for the purchase of property at a sale for delinquent assessments.

8. Attached is a spreadsheet that lists the various SID bond issues of the City of Missoula so that you can see the type of interest rates paid historically by the city and its residents.

9. Also attached is a very compelling letter of support for HB-630 from the City of Billings that addresses what has recently happened to their debt issuance process for this type of debt.

Thank you for your consideration.

- Brentt Ramharter, Finance Director, City of Missoula
- Patrick M. Weber, Financial Services Manager, City of Billings
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Outstanding Bonded Debt – City of Missoula as of June 30, 2008

		Outstanding Debt as of 6/30/2008	Outstanding Debt as of As a Percent Of Total Debt	Number of Bond Issues And/Or Loans	Number of Bond Issues And/Or Loans As a Percent of Total Loans
General Obligation Bonds:		17,500,000	28.39%	7	10.94%
Limited Obligation Bond-General Fund:		5,360,000	8.70%	5	7.81%
Revenue Bonds					
	Sewer	15,818,231	25.67%	11	17.19%
	Parking	1,060,000	1.72%	1	1.56%
	Tax Increment	6,040,000	9.80%	3	4.69%
Special Assessment Bonds		**15,631,088**	**25.36%**	**36**	**56.25%**
Loans/Contracted Debt		222,425	0.36%	1	1.56%
		61,631,744	100.00%	64	100.00%

City of Missoula
Special Assessment Bonds
June 30, 2008

Type	Description	Origination Date	Interest Rate	Term of Bond	Final Maturity Date	Amount Issued	Balance June 30, 2008
-							
1	SID 497	1992	6.47%	15 yrs	2007	$ 1,241,700	$ -
1	SID 498	1992	4.00%	20 yrs	2012	$ 2,465,000	$ 371,000
1	SID 501	1992	4.00%	20 yrs	2012	$ 943,000	$ 105,000
1	SID 503	1993	4.00%	20 yrs	2013	$ 324,000	$ 54,000
1	SID 505	1994	4.4 to 6.5%	15 yrs	2009	$ 174,000	$ 10,000
1	SID 511	1994	4.00%	20 yrs	2014	$ 304,000	$ 77,000
1	SID 512	1998	4.0 to 5.25%	20 yrs	2018	$ 1,724,000	$ 835,705
1	SID 513	1996	5.90%	10 yrs	2007	$ 41,000	$ 11,500
1	SID 514	1996	5.90%	15 yrs	2012	$ 213,000	$ 59,748
1	SID 515	1996	5.90%	10 yrs	2007	$ 9,800	$ 2,752
1	SID 517	1997	4.2 to 5.5%	15 yrs	2012	$ 91,000	$ 23,701
1	SID 518	1997	4.2 to 5.5%	15 yrs	2012	$ 39,000	$ 10,135
1	SID 519	1997	4.2 to 5.5%	15 yrs	2012	$ 109,000	$ 28,363
1	SID 520	1998	4.00%	20 yrs	2019	$ 2,634,000	$ 1,409,000
1	SID 521	1998	4.5 to 5.25%	20 yrs	2018	$ 7,900	$ 3,803
1	SID 522	1998	4.5 to 5.25%	20 yrs	2018	$ 11,200	$ 5,492
1	SID 524	2002	4.00%	20 yrs	2023	$ 4,577,000	$ 3,432,000
1	SID 525	2001	4.00%	20 yrs	2020	$ 658,000	$ 418,000
1	SID 526	2000	4.00%	20 yrs	2021	$ 2,671,000	$ 1,825,000
1	SID 527-INTERCAP LOAN	2004	variable	6 yrs	8/15/2010	$ 22,400	$ 9,600
1	SID 530-INTERCAP LOAN	2006	variable	10 yrs	8/15/2015	$ 6,706	$ 5,366
1	SID 532	2005	3.5-5%	20 yrs	7/1/2024	$ 556,000	$ 460,000
1	SID 533	2006	3.75%	20 yrs	7/1/2025	$ 244,000	$ 219,000
1	SID 534	2006	3.75%	20 yrs	7/1/2026	$ 254,000	$ 237,000
1	SID 536	2006	3.75%	20 yrs	7/1/2026	$ 438,000	$ 407,000
1	SID 540	2006	3.75 to 4.65%	20 yrs	7/1/2027	$ 1,570,000	$ 1,520,000
1	F/Y 99 Sidewalk and Curb	1999	3.2 to 4.6%	12 yrs	2011	$ 644,000	$ 80,000
1	F/Y 00 Sidewalk and Curb	2000	4.625 to 5.5%	12 yrs	2012	$ 840,000	$ 140,000
1	F/Y 01 Sidewalk and Curb	2001	3 - 4.5%	12 yrs	2013	$ 340,000	$ 95,000
1	F/Y 02 Sidewalk and Curb	2002	2-4.4%	12 yrs	2014	$ 430,000	$ 130,000
1	F/Y 03 Sidewalk, Curb, Gutter	2003	2-3.8%	12 yrs	7/1/15	$ 805,000	$ 355,000
1	F/Y 04 Sidewalk, Curb - Received in 05	2004	2-4.75%	12 yrs	7/1/16	$ 710,000	$ 365,000
1	F/Y 05 Sidewalk, Curb - Received in 06	2005	3.5-4.65%	12 yrs	7/1/17	$ 765,000	$ 525,000
1	F/Y 06 Sidewalk, Curb - Received in 06	6/28/05	3.75-4.25%	12 yrs	7/1/18	$ 1,145,000	$ 880,000
1	F/Y 07 Sidewalk, Curb - Received in 08	8/15/07	4-4.75%	20 yrs	7/1/27	$ 920,000	$ 840,000
1	F/Y 08 Sidewalk, Curb		2.50 to 5.0%	20 yrs	7/1/28	$ 560,000	$ 560,000
	1998	1998	6.500%	8 yrs-12yrs			$ 120,923
							$ 15,631,088

House & Senate Committees

February 2, 2009

The City of Billings is in **support** of HB 630.

Background

The City of Billings has approximately $22.2 million dollars of outstanding Special Improvement District (SID) debt. Billings predominantly issues more SID debt than the other larger cities in Montana.

The City of Billings attempted to get a $5.3 million dollar SID bond rated in early fall 2008. The City's SID Revolving Fund percentage to outstanding debt was 32% at the time of the rating attempt. The rating agency had two main concerns with the current SID law. The two issues were: 1) the ability to levy for SID debt if necessary, and 2) that only 5% was required by law to be retained in the SID Revolving Fund. The rating agency declined on rating this issuance. Therefore, the City struggled getting a buyer for the $5.3 million in SID bonds. Many hours of City and DA Davidson staff time were spent until, finally DA Davidson bought the bonds. That was the positive side of this issuance. The negative side, was that these bonds had an average coupon rate of 7.9%, versus a rated issue of approximately 5.5%.

Prior to this attempt, the City never had to get SID bonds rated and would receive four to five bids on each bond sale. Given the current state of the economy and financial market, that is not the case now.

SID Projects Currently on Hold

Billings has made the decision to not issue SID debt for the following projects that are ready be built. The ability to get bonds rated for a national sale is, unfortunately, an impossible task at this time. Finding a local buyer for bonds, if one can be found, will lead to a higher interest rate for the citizens of Billings.

Created SIDs

Summerhill	$ 600,000	
Lake Elmo (Main to Wicks)	$ 349,000	
East and West McDonald	$ 489,574	
Yellowstone Club Estates Sewer	$ 495,000	
Milton Lane	$ 42,601	
Jackson Phase I	$ 53,000	
Misc. Developer	$ 188,813	
Jackson Phase II	$ 57,000	
West Wicks	$ 78,000	
Highland School Route	$ 37,000	
Lake Elmo (Main to Wicks)	$ 200,000	
Misc. C, G, & S	$ 363,807	
Poly Sidewalks	$ 153,807	
		$ 3,107,602

Not created - in discussions with neighborhood

Poet Street Area	$ 500,000	
Clubhouse Way	$ 750,000	
Parkland West	$ 300,000	
Zimmerman Sewer	$ 250,000	
		$ 1,800,000
		$ 4,907,602

Senate Committee

March 23. 2009

The City of Billings is in **support** of HB 630.

The City is currently attempting to sell an SID bond in the amount $495,000 with bids due 11:30 a.m. Monday, March 23rd. The City started contacting banks, brokerage firms and individuals four weeks prior to the sale. Five banks, four brokerage firms and five individuals that have expressed previous interest in buying bonds were contacted. We have received one firm commitment from US Bank which is current banking provider. They are doing it as a service to the City and not because they necessarily want the City's bonds. The City thought with the change from $10 million to $30 million for bank qualification standards that the banks would show more interest. That was not the case.

HB 630 is a step towards Cities in Montana getting a marketable credit rating on their bonds. Billings has two examples of selling bonds in the last nine months. The bonds sold on the open market without a marketable credit rating cost the bond payers an additional 1.5% interest over 15 years. The bonds that will be sold on March 23rd it appears will have only one bid.

The current market conditions require a marketable bond rating to even attempt to get bids.

The City of Billings thanks the committee for hearing testimony on this bill. The City also thanks Senator Brown for sponsoring this bill in the Senate.

DORSEY

MEMORANDUM

TO: Diane Sands, House Local Government Committee

FROM: Mae Nan Ellingson

DATE: February 27, 2009

RE: HB 630

The need for this bill arises in part from difficulties that Montana municipalities confront in getting their special improvement district bonds rated by rating agencies. For a number of years, Montana bonds sold quite well without ratings, but given the vagaries of the municipal bond market, the ability to obtain a rating has become a key consideration in both the marketability of and interest rate on municipal bonds.

Last fall, the rating agency Standard & Poors identified to me two aspects of the statutory scheme related to both rural improvement district and special improvement district bonds that made it difficult to assign an investment grade rating to such bonds. HB 630 seeks to address both of those limitations.

The first would be to amend Section 15-10-420 to provide that any mill levy required to meet an issuer's revolving fund requirements imposed under Title 7, Chapter 12, Parts 21 or 42 would be outside the mill levy limits established by Section 15-10-420. This particular levy had been outside the mill levy limitations since they were first enacted in 1987 in response to the property tax limitation initiative voted on in 1986. It was only with the recodification and updating of the mill levy limitation in 1999 that it became subject to the limitations.

The second amendment would be primarily to provisions in Title 7, Chapter 12, Parts 21 and 42. Those parts currently provide that the local governing body, either the city council or county commission, can transfer amounts on hand in its revolving fund to its general fund in excess of 5% of the outstanding principal amount of the bonds. Rural improvement district and special improvement district bonds are secured on a pro rata basis by the revolving funds established by the issuer.

The problem with that arrangement is two-fold: a typical debt service reserve is generally 10% of the original principal amount of the bonds secured by such reserve or maximum annual debt service; and secondly, there is no authorization for the governing body of an issuer to make a binding covenant with the holder of bonds secured by the revolving fund to maintain the revolving fund at levels consistent with the level in existence at the time the bonds are actually issued and sold. Under current law, a local government does not have the express authority to agree, for the benefit of the bondholders, that it will not significantly reduce the security available to special improvement district bonds by transferring funds out of the revolving fund below a certain level. This bill will enable a local governing body to validly make such commitments and thereby enhance the marketability of special improvement district bonds.